

Memorandum

To: Ms. Kristine Cazadd
Interim Executive Director

Date: July 20, 2011

From: 
Anita Gore, Deputy Director
External Affairs Department

Subject: **Board Meeting, July 26-27, 2011**
Item P7-External Affairs Department's Deputy Director Report
Use Tax Survey/Statewide Poll

Use Tax education and outreach leading to better compliance is a priority. We know there is a \$1.1 billion non-compliance issue. What we don't know is precisely who is not meeting their use tax obligations, or why.

BOE education efforts geared at taxpayers, consumers and tax practitioners about use tax are ongoing. We publish information, issue news releases and respond to inquiries regarding use tax. We meet with groups, hold classes and seminars, send letters and offer online video information. Staff has recently solicited volunteers to participate in a Use Tax Advisory Group, which is currently under development.

It is clear that the Board of Equalization needs to continue its education efforts in the area of use tax obligations so that voluntary compliance in the program can improve. In order to offer a comprehensive, effective education program, we must first research what people currently know about use tax and their obligation to pay it, whether they will pay it once they are aware of the liability, and what will most likely compel them to pay it.

There are several categories of taxpayers from whom we need input in order to gather the most relevant data. Those categories include: business owners, consumers, service industry businesses, tax preparers/enrolled agents, and the general public.

A survey or poll, asking a series of demographic and program related questions, garnering information from taxpayers from which we can determine what educational efforts are needed, is one way we could determine the public's knowledge about use tax. We could then use that information to develop a plan to encourage voluntary compliance and motivate taxpayers to pay use tax.

SURVEYS

There are several ways to accomplish a survey that range in cost from \$0 to multiple thousands of dollars.

Free survey options:

- Both Survey Monkey and a BOE-produced and printed survey would be no (low) cost options
- Distribute printed copies to all those who attend our seminars or speakers' bureau events and have them fill them out before they leave (a pilot is currently underway)
- Email surveys to our interested parties lists and ask them to return them to us
- Email surveys to association partners and have them distribute to their members for their input
- Ask for media partners to report stories about our survey and solicit readers to take the survey

The External Affairs Department has created an informal survey that may be used as a starting point for development of a professional survey, and will be an informal source of data which may be used to influence ongoing outreach. This informal survey (attached) is currently being distributed and collected from volunteer participants in a pilot effort at BOE events (seminars/business fairs). While this pilot may not be a scientific method, or offer information of statistical significance, it is one way to obtain information we do not currently have, which may be useful in the development of future education efforts.

Survey options with costs

- Contract with a survey company to conduct a random sample phone survey
- Contract with a survey company to conduct an online survey
- Partner with a survey company to incorporate use tax related add-on questions to an omnibus survey
- Contract with a PR agency for a comprehensive education effort that includes a survey as one component

COSTS

BOE does not have in-house expertise in professional polling, question development or interviewing techniques to get the desired types of responses that would yield scientific and statistically significant data that could be used as the foundation for a professional marketing plan.

Potentially, a use tax survey/poll conducted by a professional vendor would provide BOE with information necessary to develop an effective marketing plan by determining who our audience is and how to most effectively reach them.

To determine reasonable expectations from potentially contracting with a professional polling firm, discussions were held with several reputable polling companies in California.

Contracting with a professional polling firm could cost an estimated \$25,000 – \$50,000, depending upon the number of questions asked, the length of time it takes to conduct the poll, and the number of people surveyed. Other considerations would depend upon the proposals received during the contract bidding process. Proposals may include conducting the survey online, over the phone, or in person (man on the street type), or may include additional components such as focus group testing. The precise cost of a professional poll would not be known until a contract process begins and the competitive bidding process takes place.

While costs and survey size can range greatly, based on conversations seeking initial estimates from professional polling firms, for an investment of \$25,000 we could expect a poll of 800 people being asked approximately 15 substantive questions. With a slightly greater investment, \$40,000 for example, we could potentially expect a telephone survey of 800-1,000 people with 20 substantive questions, or with an investment of \$50,000 up to 2,000 people could be surveyed with multiple questions asked.

CONSIDERATIONS

Staff plans to continue the survey pilot so there is some data available for future use.

If the Board determines a contract with a professional polling firm is desirable, staff will begin the contracting process, with the goal of having a survey in place within two to three months.

NEXT STEPS

After completion of the surveys—either professionally conducted or completed with internal resources, and an analysis of the data, a marketing campaign will be developed to educate taxpayers about their use tax obligations with the intention of greater voluntary compliance with the tax laws.

BOE staff will continue its ongoing outreach efforts and develop additional opportunities for educating taxpayers.

Another consideration for the Board is a marketing campaign that may include paid advertising, news stories, and use of social media and other efforts to be determined following results of a professionally conducted poll. A contract with a PR agency is one option to produce the most effective campaign possible. Such a campaign that would result in consumer/taxpayer behavioral change would likely be costly, perhaps even multiple millions of dollars. Consideration would have to be given to the anticipated cost effectiveness of such a paid campaign.

AG:ch

Attachment

cc: Ms. Diane Olson (MIC 80)

Approved: 
Kristine Cazadd
Interim Executive Director

Item deferred to August
Board Meeting.

July 27, 2011



Board of Equalization Use Tax Sentiment Survey

California's sales tax generally applies to the sale of merchandise, including vehicles, in the state. California's use tax applies to the use, storage or other consumption of those same kinds of items in the state. Generally, if sales tax would apply when you buy physical merchandise in California, use tax applies when you make a similar purchase without tax from a business located outside the state. For example, you would owe use tax if:

- You purchase something from a mail order catalog, the Internet, an online auction, television shopping network, etc. located outside California and you don't pay tax to that retailer.
- You withdraw taxable merchandise from your business' resale inventory and use it for your personal business use.
- You purchase vehicles, vessels, mobile homes, and aircraft from sellers who do not hold seller's permits.

The California use tax is generally the liability of the purchaser and must be paid either directly to the seller from whom the physical merchandise was purchased or directly to the Board of Equalization if the retailer is not required to collect and report California tax. Use tax is not new. That California use tax law became effective on July 1, 1935.

The Board of Equalization administers the Sales and Use Tax and many other Taxes and Fees.

Are you familiar with the California State Board of Equalization? (check one)

- Yes Have heard of it, but don't know what they do Never heard of it

Were you previously aware that use tax applies in California? (check one)

- Yes No

Do you make mail order, Internet or out-of-state purchases? (check one)

- Yes No

How much do you spend on Internet, mail order or out of state purchases annually? (check one)

- Less than \$100 \$100 - \$500 \$500 - \$1,000
 \$1,000 - \$2,500 \$2,500 - \$5,000 More than \$5,000

Do you pay use tax? (check one)

- Yes No (skip next three questions)

How much do you pay in use tax each year? (check one)

- Under \$30 \$30 - \$50 \$50 - \$100
 \$100 - \$250 \$250 - \$500 More than \$500

Do you: (check all that apply)

- Estimate use tax due? Save receipts?

If so, how do you pay your use tax? (check all that apply)

- On my income tax form To BOE directly as a consumer use tax payer
 To BOE as a registered retailer To BOE directly as a qualified purchaser (service industry business)

If you do not pay your use tax, why not? (check all that apply)

- Unaware of the law Don't believe I'll get caught
 My tax preparer has not told me I have to pay I pay too much tax already
 My tax preparer has specifically told me I don't have to pay it

If you knew that the state was owed \$1.1 billion in unpaid use tax, would you be more inclined to pay what you owe? (check one)

- Yes No

Which of the following benefits would compel you to pay the use tax you owe?

Knowing that if everyone paid their use tax: (check all that apply)

- | | |
|--|---|
| <input type="checkbox"/> Schools would be better funded | <input type="checkbox"/> Libraries could remain open |
| <input type="checkbox"/> Adult day care facilities could remain open | <input type="checkbox"/> Parks could remain open and be maintained |
| <input type="checkbox"/> Police and firefighters would not have to be laid off | <input type="checkbox"/> Money would be available in the event of a statewide emergency |
| <input type="checkbox"/> Other? _____ | <input type="checkbox"/> None of the above |

Would you pay your use tax if you knew you were going to be charged a penalty if you did not pay?

- Yes No

State income tax forms have a line for entering the amount of use tax you owe. Two ways to calculate the use tax you owe are: 1) Use an online look-up table that estimates your use tax liability based on your income, or 2) Save receipts and enter the actual amount of use tax you owe. (check one)

- I will use the amount assumed listed on the table
 I will save receipts and enter an actual amount of use tax owed based on my actual purchases
 I will not pay use tax

So we may better serve the taxpayers of California, will you please provide the following demographic information:

Age

- Under 21 21 - 35 36 - 50 51 - 64 65 and over

Gender

- Male Female

What is your household income level? (check one)

- Under \$30,000 \$30,000 - \$50,000 \$50,000 - \$100,000
 More than \$100,000

Ethnicity

- | | | |
|--|---|--------------------------------------|
| <input type="checkbox"/> American Indian | <input type="checkbox"/> Alaskan Native | <input type="checkbox"/> Asian |
| <input type="checkbox"/> Black | <input type="checkbox"/> Filipino | <input type="checkbox"/> Hispanic |
| <input type="checkbox"/> Pacific Islanders | <input type="checkbox"/> White | <input type="checkbox"/> Other _____ |

Education level

- | | |
|---|---|
| <input type="checkbox"/> Did not graduate high school | <input type="checkbox"/> High School Graduate |
| <input type="checkbox"/> Some college | <input type="checkbox"/> Undergraduate degree |
| <input type="checkbox"/> Graduate degree | |

Thank you for taking the time to complete our survey.

If you would like to participate in upcoming focus groups regarding BOE issues, please provide your name, address, phone number, and email.

Name Address Phone Email